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One City's Intriguing Experiment With ‘Social Bonds’

With a bond issue earmarked for community projects and marketed to individual investors as well as institutional buyers, Chicago is trying to move the needle on social equity. Is it the start of a durable trend, or just a cute public finance anomaly?

The municipal bond market is dominated by large institutional buyers like insurance companies, banks and mutual funds. Individual investors usually get the leftovers. But the city of Chicago broke through that glass ceiling last month with a $160 million “social bond” issue that attracted a swarm of individuals and households who want their money to do more than just earn tax-free income. In this case, the bonds’ proceeds are earmarked for a variety of urban social goals, including affordable housing, vacant-lot cleanup and the planting of 15,000 trees.

For a city with a checkered history of fiscal self-deception and perennially fragile bond ratings to pull off this sale is noteworthy in itself. That it could sell 20-year bonds at rates under 4 percent — below that of even today’s super-safe U.S. Treasury bills — was itself a remarkable accomplishment.

Can and will other cities follow Chicago’s lead? Or was this just a blip on the radar — a cute anomaly but not durable enough to move the needle in urban redevelopment and social equity?

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